

STATEMENT OF
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TO THE
COMMITTEE ON POST OFFICE
AND CIVIL SERVICE
HON. WILLIAM FORD, CHAIRMAN

HEARINGS ON THE DESIGN OF A
SUPPLEMENTAL CIVIL SERVICE
RETIREMENT SYSTEM

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U.S. HOUSE OF REPRESENTATIVES
WASHINGTON, D.C.

Good morning, Mr. Chairman. My name is Robert M. Tobias; I am President of the National Treasury Employees Union. We are the exclusive representative of over 120,000 Federal employees and retirees.

We commend the Chairman for holding these hearings on the formulation of a supplemental retirement plan for those Federal employees who entered the Social Security system on January 1, 1984. Though adopting the final shape of such a program remains a distant goal, this forum is an important step in the process of identifying and beginning to address the myriad problems inherent in designing a supplemental plan.

Our union firmly believes that the primary conclusion to be drawn from the research that has already been done on this issue is an appreciation of the extreme difficulty of the task now before this Committee. Constructing a new retirement system to supplement a social security base would be complex enough for any employer under normal circumstances; given the recent turmoil that has beset the Civil Service Retirement System, the assignment becomes truly labyrinthine.

Over the past five years, we have seen the Civil Service Retirement System slowly but steadily eroded. The Federal budget during that time has contained numerous provisions which have trimmed benefits, most notably the reduction of the annual cost-of-living adjustments (COLA), from two to one. The atmosphere for the passage of these cuts was created by cries from some segments of the media, the public, and the Administration itself that civil service retirement was too

generous to employees and too costly to the taxpayers. The common thread among all these critics was a seeming ignorance of the system's funding mechanics and for a willingness to use misleading figures to support their arguments.

Last year, of course, Congress passed the Social Security Amendments of 1983 which provided for the first time that Federal workers, specifically those entering government service on or after January 1, 1984, would be brought under social security. This law had profound implications for the Civil Service Retirement System. Besides creating the need for a supplemental retirement program for new workers, the legislation presented a potential threat to the funding of the existing system and, thus, to the well-being of current Federal retirees and active workers.

This is the atmosphere that exists as all parties begin to confront the task of designing a new retirement plan. Balancing the interest of Federal workers, the public, and the needs of the government in its role as an employer will obviously not be easy; but we believe that it can be done if certain principles of fairness are established -- and maintained --from the start.

First and foremost, we support the principle that the new plan should, in conjunction with social security, provide a level of benefits as close as possible to those under the present system. This concept was endorsed last year by the leadership of the House and by the Chairman of the Senate Governmental Affairs Committee on the floor of the Senate during the social security debate.

Some of the major features of the existing program which we believe should be built into the new plan are:

- Benefits based on the high three years of salary;
- Protections against inflation to safeguard the purchasing power of annuities;
- Ability to draw a full annuity at age 55 with 30 years of service, at age 60 with 20 years, and at age 62 with 5 years.

The concept of equivalency of benefits is vitally important in order to avoid the divisiveness that inevitably results when one group of employees perceives that they are being treated differently from others. The youngest workers on the rolls before January 1, 1984 who are covered solely by the existing retirement system could remain employed at least until the year 2020. If the new plan were to differ drastically from the old, employees working side by side would, essentially, be receiving varying rates of compensation for the same job. We cannot afford to wait 35 to 40 years before being able to say, "Now, finally, everyone is being treated the same." If the new system is to have credibility, it must be perceived by employees as being fair and equitable from the outset.

Late last year, this Committee passed a bill (which was ultimately enacted) to relieve new Federal workers of the overwhelming burden of paying full shares into both Social Security and the Civil Service Retirement System. This legislation was predicated on the tenet that present and new employees should be treated the same. We contend that this

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principle must also be a part of the foundation of the supplemental retirement plan. We urge the Committee to include equivalency of benefits as a basic part of the new system.

Second, we believe that the financial integrity of the current Civil Service Retirement System must be maintained. We submit that it would be an unconscionable act of the worst degree if promised benefits upon which people have ordered their lives are not paid.

Currently, the civil service retirement fund is healthy; as long as the present funding level is maintained, the fund will remain actuarially sound until well into the 21st century.

One method of ensuring that the fund does not encounter future problems would be to merge the present system with the newly created supplemental plan. This would provide the best assurance that promised benefits will be paid and that the new program will have a healthy foundation. Unless it can be shown that these goals can be accomplished in some other manner, we believe that merging the two funds must also be a basic part of the design of the new plan.

Third, we believe the new system should have credibility with the public. The "credibility" issue is one often raised by the Reagan Administration, and we acknowledge that there is merit to this principle. We also recognize that there is a right-wing, anti-labor element in this country that will howl in protest as long as any Federal worker or retiree receives one dime of fair compensation. We do, however, have much greater faith in the American public at large than in this shrill minority.

It is incumbent upon everyone who is interested in this process to accept and communicate the fact that the United States government is, among other things, the largest employer in the country. As such, if the Federal government must be able to recruit and maintain a high quality work force, it must have benefits comparable to other large employers.

The Civil Service Retirement System was, until recently, the single stable benefit that enabled the government to remain in competition for the best and most dedicated employees. The unprecedented assaults on the retirement program coincided with the huge decline in morale and the loss to the government of highly talented employees which even the sad state of the nation's economy has not wholly abated.

Therefore, what is at stake is the government's ability to provide efficient service to the citizens of the United States at a fair cost. The employees for whom the government is competing -- a work force that must be well-educated, possess specific skills, and capable of filling administrative and professional positions -- are not characteristic of the American labor movement as a whole and cannot be treated as such. These people are in demand by some of the largest business concerns in the United States, and it is their benefit systems to which the new retirement plan must be compared to determine what importance is placed on retirement by these employers.

For example, J. Peter Grace, head of the President's Private Sector Commission on Cost Control is fond of attacking

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civil service retirement. Yet, the retirement plan for W.R. Grace and Co. is totally employer paid with no contribution required of the employee. Such a system obviously costs the company a great deal, but apparently W.R. Grace finds it worthwhile to provide employees with incentive. In this regard, the government has a similar interest.

We believe that the Committee must compare the cost of a new plan with that of private sector programs. But this must be done in a realistic manner, i.e., compare it only to like employers, not to small operations that have little semblance to the government. Anyone can look at a retirement system and label it "expensive" merely by citing -- out of context -- the dollar amounts needed by the plan. That is neither intelligence or analysis; it is sheer demagoguery. We continue to believe, however, that if the new plan can be shown to compare favorably with like private sector programs and is cast as a part of the government's responsibility and needs as an employer, it will be accepted by the employees and by the American people.

Finally, there are numerous issues on which it is far too early to comment. Some of the basic questions to be resolved are 1) whether the new plan should be a defined benefit or defined contribution; 2) whether the new plan should be subject to the regulations under the IRS and the Employee Retirement Income Security Act (ERISA); and 3) what to do about survivor benefits and disability provisions.

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Our initial reaction to the first of these questions is that the new plan should be a defined benefit system. A defined benefit system is one in which the benefit is fixed by a formula and the cost is estimated and must be adjusted in order to meet the promised benefits. We believe that this approach would appeal to most workers, because 1) under a defined benefit plan, employees know what they will receive in annuities and can better plan their futures; 2) employees are familiar with it since it parallels the construction of the present system; and 3) such a format would make it easier to maintain a comparable level of benefits, such as inflation protection, full annuity at age 55 with 30 years of service, and a benefit based on the high three years of salary.

We cannot yet comment on whether or not the supplemental plan should be subject to IRS and ERISA regulations. Two advantages of such coverage would be guaranteed protection of the employees' accrued benefits and uniformity with the private sector that could make the system more acceptable in some quarters. Nevertheless, until we see more specific details of a proposal, we must reserve judgment on this topic.

Clearly, one of the thorniest components of the new plan will be the provisions on disability and spouse and survivor benefits. Mr. Kenneth Shapiro of Hay/Huggins who noted that, while civil service retirement provides benefits to some individuals who may not meet the social security definition of disabled, the same results are often achieved through separate long-term disability plans. We agree with Mr. Shapiro that

disability benefits should be based on a comparison with the total private sector disability benefit package, not merely the applicable provision in retirement plans.

Another issue to be considered is the problem of spouse and survivor annuities. These benefits are different under the two systems with each being superior in some respects and inferior in others. In any event, the spouse and survivor benefits under the new plan must be at least equivalent to those under the present system.

In conclusion, Mr. Chairman, we appreciate the monumental tasks now confronting the Committee. We hope that all interested parties will not be trapped into looking at the task of creating a supplemental retirement plan solely from the vantage of the past. The problem before us is unique and unprecedented in the Federal sector. In addition, the very nature of the government renders private sector comparisons imperfect at best. For our part, we believe that the principles of fairness we have outlined must provide the basis of a new plan. We pledge to maintain an open mind on this vital topic so that as many options as possible can be considered objectively.

Thank you for this opportunity to present our views. We will be glad to provide any assistance which the Committee may request.